

Message Text

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PAGE 01 KUALA 02331 140933Z
ACTION EA-09

INFO OCT-01 ISO-00 CIAE-00 COME-00 EB-08 INR-07 LAB-04
NSAE-00 SIL-01 HEW-04 DODE-00 PM-04 H-01 L-03
NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 OMB-01
TRSE-00 /073 W

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R 140751Z APR 77
FM AMEMBASSY KUALA LUMPUR
TO SECSTATE WASHDC 6866
INFO AMEMBASSY SINGAPORE

LIMITED OFFICIAL USE KUALA LUMPUR 2331

E.O. 11652: N/A
TAGS: EFIN, ELAB, MY
SUBJECT: IMPLEMENTATION OF PUBLIC SECTOR (IBRAHIM ALI COMMISSION)
RETROACTIVE SALARIES INCREASE

1. CURRENT GOM THINKING, WHICH HAS BEEN ANNOUNCED PUBLICLY, IS
THAT THE RETROACTIVE PUBLIC SECTOR SALARIES INCREASE
WILL BE PAID IN CASH IN FIVE EQUAL MONTHLY INSTALLMENTS
BEGINNING JUNE 1977.

2. ACCORDING TREASURY OFFICIAL, THE TOTAL ADDITIONALITY FOR 1976
AND 1977 FOR ALL PUBLIC OFFICIALS (FEDERAL, STATE, OTHERS) IS
ABOUT M\$800 MILLION (US\$326 MILLION). THIS WILL BE MADE TO
APPROXIMATELY 560,000 EMPLOYEES. INCOME TAX WILL BE WITHHELD FROM
THE PAYMENTS.

3. TREASURY OFFICIAL INFORMED US THAT GOM EXPECTS TO
BE ABLE TO MAKE PAYMENTS OUT OF CURRENT REVENUE WHICH IS
EXCEEDING USUAL CONSERVATIVE PROJECTIONS BECAUSE OF
CONTINUING FAVORABLE COMMODITY PRICES AND TAX REVENUES
WHICH THIS GENERATES. REVENUE FROM PETROLEUM ALSO EXCEEDING
EARLIER PROJECTIONS.

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PAGE 02 KUALA 02331 140933Z

4. ACCORDING TREASURY, OFFICIAL, INJECTION OF MONTHLY
PAYMENTS INTO US\$11 BILLION ECONOMY NOT IN ITSELF EXPECTED
TO HAVE SIGNIFICANT IMPACT ON CONSUMER PRICE INDEX.
OF GREATER CONCERN IS PSYCHOLOGY OF SITUATION IN WHICH
SHOPKEEPERS WOULD ALL RAISE PRICES TO GET THEIR BIT OF
WELL-PUBLICIZED INCREASE. THERE HAS BEEN SOME ANTICIPATION

ALREADY BUT CONSUMER PRICE INDEX FOR JANUARY AND
FEBRUARY SHOWS ONLY FOUR PERCENT INCREASE ON ANNUAL
BASIS.

5. SEPARATE DISCUSSION WITH CHIEF ECONOMIST OF CENTRAL
BANK CONFIRMED SITUATION DESCRIBED ABOVE.

6. COMMENT: CONTROLLING INFLATION AT LOW RATE IS MAJOR
OBJECTIVE AND CONCERN OF GOM. GENERAL EUPHORIA AND
18 PERCENT INFLATION OF 1974 CLEARLY REMEMBERED BY SENIOR
OFFICIALS. PAYMENT OF WAGE INCREASE COINCIDES WITH HIGH
LIQUIDITY IN ECONOMY RESULTING FROM RECORD
MERCHANDISE ACCOUNT SURPLUS AND ONLY MODERATE TO LOW
LEVEL PRIVATE SECTOR INVESTMENT. GIVEN CURRENT TRENDS
THESE FACTORS, PROJECTED 4-5 PERCENT INFLATION RATE
FOR 1977 MAY PROVE ELUSIVE.
UNDERHILL

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